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C O N F I D E N T I A L SECTION 01 OF 02 BUCHAREST 000440

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STATE FOR SE MORNINGSTAR, EEB DSTEIN, EUR/ERA EMCCONAHA,
AND EUR/CE ASCHEIBE

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TAGS: [ENRG](#) [ECON](#) [PREL](#) [RO](#)

SUBJECT: ROMANIA: DISCUSSING ENERGY WITH RUSSIA, BUT NO
CLOSE RELATIONSHIP

Classified By: Charge d'Affaires, a.i. Jeri Guthrie-Corn for reasons 1.
4 (b) and (d).

¶1. (C) Summary: Minister of Economy Adreian Videanu met with Charge d'Affaires on June 24 to discuss his recent trip to Moscow and plans for the Romanian energy sector. At the top of the list of discussion points was the recently announced gas storage agreement between Romgaz, the Romanian natural gas producer, and Gazprom. The Minister also made a pitch for White Stream and the quick development of paired Liquefied Natural Gas (LNG) plants on opposite sides of the Black Sea in Constanta, Romania and Supsa, Georgia. Other topics included a power transfer station and the South Stream pipeline project, neither of which Romania supports. At the Charge's request, Minister Videanu provided additional details on the Ministry's proposal to restructure the state-owned companies in the energy sector and his vision for the development of nuclear and renewable energy. End Summary.

¶2. (C) Confirming press reports that his recent trip to Moscow produced an agreement between Romgaz and Gazprom to develop an underground natural gas storage facility, the Minister went out of his way to assure us that this did not reflect a broader cooperation with Russia on the full range of energy issues. The Minister explained that the project would be a 50-50 joint venture between Gazprom and Romgaz, with the Government of Romania (GOR) retaining the ability to extract gas on an emergency basis from the 3 billion cubic meter (bcm) facility. This would boost Romania's accessible underground gas storage from 3.1 bcm to 6 bcm (nearly 40 percent of yearly consumption). The Minister linked this larger storage area to European energy security, noting that extra gas could be exported to Romania's neighbors in a crisis.

¶3. (C) Turning to LNG and pipelines, the Minister said that Romania would stake out a cooperative position with Russia, but would not directly participate in South Stream. Explaining that Romania was obligated to share geological data about the Black Sea continental shelf, he said that the GOR would comply with Russian requests for information, per international rules. At the same time, he ruled out a broader cooperation with Russia on the South Stream project, plugging instead for Nabucco, LNG, and White Stream. While Nabucco is on hold pending Turkish approval of the Inter-State Agreement (ISA), Minister Videanu said Romania is ready to sign and insisted that the project must remain on track before the window closes for securing gas supplies from Azerbaijan. Aside from Nabucco, the best option for securing gas supplies to Romania will be through LNG imports, with the Minister noting that he is planning to visit Azerbaijan on July 2nd in a bid to move this option forward. Absent LNG facilities, the Minister was animated about the possibilities for White Stream, but was unclear on the routing and technical details.

¶4. (C) Adrian Baicusi, Director General and CEO of Transelectrica, the state-owned electricity distribution company, also participated in the meeting. He described a Russian proposal to develop an electrical transmission line through Romania from the Ukrainian border to Varna, Bulgaria.

Since this line would largely overlap existing infrastructure, Russia believes that it could be brought on-line quickly, serving as an export route for (low cost) Russian electricity producers. Both Baicusi and Videanu stated they are not interested in the proposal and plan to erect "technical" hurdles to keep the project from moving forward. However, their objections seemed more protectionist than security related. Baicusi questioned Russian claims that the line would be for export only by stating, "we all know it never is just that." Since implementation would require constructing AC-DC conversion stations, both Baicusi and the Minister were optimistic that expense and technical problems -- real or imagined -- would scuttle the plan.

¶5. (SBU) Responding to the Charge's question about the Ministry's proposal to restructure the energy sector, Minister Videanu said his goal was to put together two "balanced" companies before the end of the year. Both companies would include a mix of generating methods and be vertically integrated, from mine (or gas field) to end user. He assured us that this restructuring would in no way affect the shareholdings of the Romanian Property Fund (Note: The Property Fund is a property restitution vehicle, designed to compensate former owners of expropriated properties. Several American individuals and firms are among the Fund's shareholders. End Note). and that this project was

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necessary in order to comply with European competition rules, stating that competition under the current system was illusory. Expressing an admiration for the models implemented in other countries, the Minister said that other EU countries have integrated power producers and therefore Romania should as well. Taking on board our suggestion that he consult with stakeholders before implementing changes, he said that he already had met extensively with E.ON, Gaz de France, and CEZ. (Note: This is a limited group of companies.

Several AmCham members have a different view, complaining to us about the Ministry's opaque reform plans and unwillingness to engage in any sort of broad dialogue. End Note). Once consolidated, Videanu evinced a hope that management of the two integrated companies could be privatized, although he noted that the Prime Minister has not yet approved this part of the plan.

¶6. (SBU) In the Minister's vision, integrated companies would offer better support to renewable energy producers making it easier to raise funds for large projects, although post is skeptical of this point. Conceding that new projects would need to be funded through a Public-Private Partnerships (PPP) model, the Minister said that integrated energy companies would be better equipped to manage this. When pressed, however, he admitted that the long-promised PPP legislation is still in draft stage and that there are no immediate prospects for parliamentary approval. Turning to nuclear energy, the Minister said that the GOR was committed to developing a third-generation nuclear reactor in Transylvania near Fagaras, with the exact site still undetermined. Saying that Romania learned a lesson from Turkey's recent tender for a nuclear power plant, he said that he was lobbying for the GOR to limit bids to "third-generation plus" designs, which would exclude Russia. He went on to say that only Canada and France had advanced third generation designs, before being reminded by EconOff that Westinghouse and other American companies have also developed advanced reactors.

¶7. (C) Comment: The Minister specifically asked the Charge to convey his comments to SE Morningstar, indicating that he was responding to points raised in a previous discussion.

His explanation of the proposal to consolidate the state-owned energy companies into two competing groups appears to have garnered political momentum, but may not be fully thought out. The main motivations appear to be "me-tooism" and job security for coal miners, neither of which provides compelling justification for the project. The project will allow cheap hydropower production to subsidize more expensive coal plants while excluding renewable energy, not a good recipe for combating climate change. Of note was how Russia dominated the discussion, with the Minister seemingly eager to reassure us that nothing untoward happened during his last visit to Moscow. His comments almost presumed USG hostility toward Russia on energy matters that seemed anchored in a misunderstanding of our real energy security goals. Post will endeavor to reinforce the message that cooperation with Russia is not the problem, it is only those projects which don't make sense on a transparent market basis that concern us. End Comment.

GUTHRIE-CORN